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The President's Daily Brief

27 January 1969

(Morning)

~~*Top Secret*~~ 50X1

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28 January 1969

LATE NOTES FOR THE PRESIDENT'S DAILY BRIEF OF 27 JANUARY 1969

I. MAJOR PROBLEMS

Middle East

The Israeli mission at the United Nations has informed U Thant that another group of Jews in Iraq faces the threat of execution as spies, according to an Israeli spokesman in New York. U Thant was said to have told an Israeli representative that he would look into the matter urgently. (AP New York, 27 January 1969)

Europe

There is nothing of significance to report.

Soviet Affairs

Moscow Radio, in its initial report on President Nixon's press conference, briefly summarized the President's statements without comment. (FBIS 48, 27 January 1969)

Vietnam

There is nothing of significance to report.

II. OTHER IMPORTANT DEVELOPMENTS

Pakistan

Army units were called in yesterday evening to assist police in quelling continued disturbances in outlying areas of Karachi. Troops also took control of Lahore late

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yesterday following a six-hour fight between police and student mobs. Curfews were imposed in both cities.

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FOR THE PRESIDENT ONLY

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I. MAJOR DEVELOPMENTS

Middle East

There is nothing of significance to report.

Europe

The Annex is a discussion of possible future crises in France.

Soviet Affairs

The huge throngs which converged on Prague for Jan Palach's funeral apparently were impressed by the solemnity of the occasion and by the preparedness of the authorities. On Saturday, police wisely allowed students to proctor the ceremonial interment. On Sunday, however, they served notice that the affair would not be allowed to continue as an anti-Soviet cause celebre. This led to some incidents in Wenceslas Square, but the number of youths involved was relatively small and the matter was handled competently by civil authorities, without calling in the army.

None of the problems which enflamed passions so much last week have been settled, however, and they cannot be ignored for long. Censorship and control of the party and government are prime questions,

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involving the conflicting interests of the Soviets, factionalized Czechoslovak politicians, and the people. There are no prospects of an easy resolution and a new crisis could boil up at any time.

VIETNAM

The French Foreign Minister has given Ambassador Lodge the French interpretation of Hanoi's current view on how a settlement could be reached. This version closely follows the line which North Vietnamese diplomats throughout the world have been pushing for the last several weeks, particularly in regard to their demand for a "peace cabinet." This Communist line seems to be aimed at encouraging the US to believe that an easy and quick way out of the war lies in pushing the GVN into taking a "neutralist" position and including politicians acceptable to the Communists in the government in Saigon.

According to the French, Hanoi wants to negotiate seriously, and early in the talks it wants a forecast from the US of what kind of a political solution the latter will accept.

The French believe that the Communists, for their part, are willing to forego demanding a coalition government as a condition for the withdrawal of troops if

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satisfactory interim political arrangements can be reached. To Hanoi, "satisfactory political arrangements" means expansion of the present government of South Vietnam to include additional ministers, according to the French. This expanded government would be a "government of peace." This interpretation contrasts with Hanoi's earlier demands for the removal of most of the top leadership of the Saigon government as a first step toward establishing a regime with which Hanoi could deal.

* * *

Saigon is evidently aware of at least some of the inadequacies of its delegation staff in Paris. [redacted] 50X6

[redacted] 50X6

[redacted] competent personnel may 50X6
be sent to augment the delegation's capabilities.

Any such upgrading of the delegation's staff, however, is likely to produce only a limited improvement in its ability to handle new developments quickly. President Thieu usually prefers to await the Foreign Minister's review of each negotiation meeting before deliberating over the results himself. Moreover, the South Vietnamese have had some difficulty at the staff level in getting their lines straight on how to proceed. Accordingly, the South

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Vietnamese will probably require several days for review and planning between sessions of the Paris meetings.

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Ky seems to have relaxed his efforts to promote his own political fortunes, at least for the moment. His latest views on the need for stronger leadership seem implicitly to acknowledge that Thieu is in a strong position.

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A small band of enemy sappers attacked a civil defense compound in the southwestern part of Saigon today, inflicting several casualties and destroying fifty percent of the buildings. This is the first ground probe against a target within the city limits of Saigon since the Communist's offensive of last May. It may presage a step-up in terrorist and sabotage operations within Saigon, in line with continued reports of enemy efforts to infiltrate sappers into the city.

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II. OTHER IMPORTANT DEVELOPMENTS

SPAIN

The Spanish Government's declaration of a state of emergency last Friday should be sufficient to take the momentum out of student anti-government demonstrations and other political unrest. There is no guarantee that absolute calm will be restored, but the authorities seem to feel that strong measures will prevent a crisis such as occurred in France last May. We think the Spanish Government will be relatively judicious and selective in applying its emergency powers, avoiding provocation of the dissidents, and cocking a wary eye toward world opinion.

PERU

The Revolutionary Junta, composed of the armed forces chiefs, has announced that General Velasco will continue as president after his retirement from the army on 31 January. The communiqué ends speculation in Lima that military officers, dissatisfied with Velasco's ultranationalism, were preparing to replace him with General Montagne, the present prime minister.

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NATIONALIST CHINA

Chiang Kai-shek reacted with predictable anger to the preparations of the Italian and Canadian Governments to establish diplomatic relations with Communist China. He implied to Ambassador McConaughy that as long as Rome and Ottawa persisted in exploring ties with Peking, he would have their embassies harassed enough to make their situations "completely untenable without directly ordering them to leave." If either government recognizes Communist China, Chiang will break relations at once to show other states that they "cannot have it both ways." The fact that Nationalist China has maintained official ties with France--despite De Gaulle's recognition of Peking in 1964--is attributable, in the Generalissimo's words, to France's big-power status, its permanent seat on the UN Security Council, and to personal reassurances from De Gaulle that his act was anti-US, rather than pro-Peking.

PAKISTAN

The opposition is keeping the pressure on President Ayub Khan in this election year. Violent and destructive anti-government disorders hit the country's major cities over the weekend. The army had to be called in to restore order in Dacca, the capital of East Pakistan. A strict curfew is now in effect there; violators are shot on sight. There were reports of rioting in seven West

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Pakistan cities, with Karachi, the main commercial center the hardest hit. By late yesterday Karachi police contained the disorders. New trouble could erupt today as a result of a general strike called for all major urban areas by the loosely knit opposition coalition. A nationwide general strike, involving rural areas where Ayub is strongest, has been called for 14 February.

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ANNEX

Future Crises in France

SIGNIFICANCE: Shaky confidence in the franc is France's greatest vulnerability at present. Bad economic news or a recurrence of student and worker disturbances could set off another speculative run in the next few months. If the pressure this time was too heavy to be contained by the sort of measures which worked last November--and this might well be the case--De Gaulle would probably resort to a deep devaluation. This would plunge sterling into a crisis and confront the US with urgent problems of monetary policy.

* * *

De Gaulle has not yet succeeded in restoring French confidence, which was severely shaken by the domestic crisis of last May and again by the financial crisis of November. Recent polls show that over 60 percent of the French public believes that the franc will be devalued in 1969 and that over 50 percent expects a recurrence of the May disturbances. The first test of confidence will come in March, when new labor contracts will be negotiated.

Despite the considerable health of the French economy, it still faces great difficulty in competing with West Germany and, more important, in living down its currency's recent weakness in the exchange market. Already, reports of a substantial December trade deficit have led to moderate January losses in reserves. A variety of events, such as the release of very

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bad monthly trade figures or an inflationary wage settlement, could lead to a speculative run which would be hard to stop.

In this event, the other leading Western nations would probably render extensive aid to the franc. If this proved insufficient, however, De Gaulle would have to choose between domestic austerity measures going well beyond those taken in November, or a substantial devaluation of, say,well over 10 percent. Given his concern not to risk domestic unrest, he would probably decide to devalue, choosing in this way to export the problem. (Even before this point, he might threaten such a move as a means of getting more aid from other countries.)

A deep devaluation would hit sterling first of all. Unless massive new credits were quickly forthcoming, London would be forced to make a comparable devaluation or even to let the pound float freely. The operations of the Common Market, dependent as they are upon a fixed set of exchange rates, would also be hard hit. The Six would again be made painfully aware of the liabilities of half-integration, and this might eventually spur some progress toward a closer concerting of economic policies. In the short run, however, with the entire world monetary system put in serious question, the US would be confronted with policy problems of great magnitude and urgency.

A crisis on the scale of last May involving workers and students seems less likely, although sporadic student and labor protests are continuing. Radicals remain in control of the

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student movement--in part because of the failure of moderate elements to organize effectively--and can still foment campus disorders. They have had virtually no luck, however, in enlisting workers to their cause, and an isolated student rebellion would be easily suppressed. Union leaders and the rank and file are both anxious to avoid a recurrence of the May disorders at this time. An important test will occur in March, however, when the government and business will have to decide whether to go forward with wage increases promised in the settlement of last spring; both government and business leaders have hinted that they might have to renege.

A severe franc crisis would increase the chances for a domestic upheaval. And if, contrary to our present expectation, a widespread student and labor revolt erupts and is not quickly repressed, this in turn would almost surely hit domestic and foreign confidence hard enough to undermine the franc. By either route, France would be plunged into a double crisis which would bring into question the survival of De Gaulle's regime.

Such a double crisis might be quelled with a combination of limited measures--replacement of Couve de Murville's cabinet, large foreign loans to replenish French reserves, modest new doses of austerity, and efficient police operations. If these failed to hold the line, De Gaulle could be faced with the alternative of resigning or moving to a more authoritarian regime relying on the tacit support of the army. The latter is more likely. But in this event De Gaulle's

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prestige at home and his influence abroad would be gravely damaged. Ultimately, this might lead him to concentrate more on domestic matters and to take a less active role in foreign, particularly extra-European, affairs.

De Gaulle reaffirmed last week that he means to serve out his term, which runs until 1972. Nevertheless, it is a measure of the setbacks which France has sustained that his resignation in a new severe crisis, though it still seems unlikely, can not be altogether excluded. This most extreme outcome would pile a host of political uncertainties on top of the international financial problems arising from this hypothetical course of events. The end result of the ensuing turmoil is of course unpredictable, but in view of the divisions on the French political left the odds would favor the eventual formation of a moderate or conservative government, probably headed by a Gaullist.

Until some resolution was achieved, however, the US would be faced with continuous pressures to take positions which would assist or harm the fortunes of the domestic contestants. It would also be extremely difficult to carry forward general policies for Europe, deal with international monetary problems, or respond to challenges from the USSR or crises in East Europe while France's political future remained in doubt.

In time of crisis, the sense of interdependence in Western Europe is high. Whatever gloating they might indulge in,

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the UK and France's Common Market partners would be ready to assist as they could in a speedy solution of France's troubles. The Germans could be expected to support the franc as they did in November, and in an emergency even a revaluation of the mark is not entirely out of the question, though it still seems unlikely. Once the crisis was over, however, the Europeans' sense of a shift in weight from France to Germany would rise another important notch. One prominent consequence would be an increased concern to contain German power, and to enlist US support in this endeavor.

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